IN THE INCOME TAX APPELLATE TRIBUNAL
'C' BENCH : BANGALORE

BEFORE SHRI CHANDRA POOJARI, ACCOUNTANT MEMBER
AND
SMT. BEENA PILLAI, JUDICIAL MEMBER

IT(IT)A No.2313/Bang/2016
Assessment Year : 2013-14

Blue Yonder Inc. (Formerly known as JDA Software Inc.) C/o Blue Yonder India Pvt. Ltd., Tower A, Mantri Commercio, Devarabeesanahalli, Outer ring road, Varthur Hobli, Bengaluru-560 103. **PAN – AACCJ 3581 C**	**Vs.**	The Income-tax Officer (International Taxation), Ward-1(1), Bengaluru.
APPELLANT		**RESPONDENT**

Assessee by	:	Shri T Surya Narayana, Advocate
Revenue by	:	Shri Vilas V Shinde, CIT(DR)

Date of Hearing	:	23-08-2021
Date of Pronouncement	:	-08-2021

ORDER

PER BEENA PILLAI, JUDICIAL MEMBER

This appeal is by the assessee against the order dated 20/10/2016 passed by the Ld.AO u/s.143(3) r.w.s. 144C(13) of the Income-tax Act, 1961 [the Act] on the following grounds :-

> *"On the facts and circumstances of the case and in law, the Income Tax Officer (International Taxation), Ward-l(1) ('Ld.AO') has erred in computing the total income of the Appellant at INR 98,413,296 as against Nil returned income.*

Erroneous treatment of the receipts from Indian customers towards sale of software as royalty'
2. On the facts and circumstances of the case and in law, the Ld. AO has erred in holding and the Hon'ble Dispute Resolution Panel ('DRP') has further erred in confirming that the payments received by the Appellant from the Indian customers towards sale of software is in the nature of 'royalty' taxable under section 9(1)(vi) of the Income-tax Act, 1961 ('the Act') and Article 12 of the Double Taxation Avoidance Agreement ('DTAA') between India and USA.
Erroneous treatment of receipts from Indian customers towards annual maintenance services for services for software and software implementation and consultancy services'
3. On the facts and circumstances of the case and in law, the Ld. AO has erred in holding and the DRP has erred in confirming that the payments received by the Appellant from the Indian customers towards annual maintenance services and implementation and consultancy services in respect of the software licenses is liable to tax in India as 'fees for technical services' under section 9(1)(vii) of the Act and as 'fee for included services' under Article 12(4)(a) of the India - USA DTAA.
4. On the facts and circumstances of the case and in law, the Ld. AO has erred in holding and the DRP has erred in confirming that the said fees are ancillary and subsidiary to the sale of software and hence, falls under the provisions of Article 12(4)(a) of the India- USA DTAA.
5. On the facts and circumstances of the case and in law, the Ld. AO has erred in holding and the DRP has erred in confirming that the services of the Appellant entails making available of technical knowledge, experience, skill,+ know-how or process or consists of the development and transfer of a technical plan or technical design.
Short grant of TDS credit
6.On the facts and circumstances of the case and in law, the Ld. AO has erred in granting credit for TDS only to the extent of INR 9,400,107 as against eligible TDS credit of INR 10,255,810.
Levy of interest under section 234B
7. On the facts and circumstances of the case and in law, the Ld. AO has erred in levying interest
8. On the facts and circumstances of the case and in law, the Ld.AO has erred in initiating penalty proceedings under section 271(1)(c) of the Act.
Relief
9. On the facts and circumstances of the case and in law, the Appellant prays that the Ld. AO be directed to grant all such relief arising from the preceding grounds as also all relief consequential thereto.
The Appellant submits that the above grounds are independent of and without prejudice to one another.

The Appellant craves leave to add to or alter, by deletion, substitution or otherwise, any or all of the grounds of appeal, at any time before or during the hearing of the appeal."

Brief facts of the case are as under:

2. The assessee is a tax resident of USA and is engaged in the business of sale of computer software to its customers all over the globe including India. Assessee also provides maintenance and other services in connection with computer software. Assessee during the year under consideration has entered services to various customers and income received amounts to Rs.9,84,13,296/- towards sale of software licenses and software implementation support fees and annual maintenance fee from various customers in India. In the draft assessment order dated 24/03/2016, Ld.AO concluded that the amount received by assessee constituted royalty within the meaning of Article 12 (3) of the DTAA and as per the provisions of section 9(1)(vi) of the Act. The Ld.AO brought to tax the receipts from Indian customers on account of annual maintenance services, implementation and consultancy as fee for technical services under section 9(1)(vii) of the act and fee for included services under article 12(4)(a) of India U.S. DTAA.

2.1. Aggrieved by the order of the Ld.AO, assessee raised objections before the DRP. The DRP upheld the observations of Ld.AO. Upon receipt of the DRP directions, the Ld.AO passed impugned order by making an addition of Rs.98,41,330/- hands of assessee.

2.2. Aggrieved by the order of Ld. AO, assessee is in appeal before us now.

3.The Ld.AR contended that the issues raised now stands settled by the decision of *Hon'ble Supreme Court* in case of *Engineering Analysis Centre of Excellence pvt ltd vs CIT* reported in *(2012) 432 ITR 471*, wherein it has been held that sale of software would not constitute royalty within the provisions of section 9(1)(vi) of the act and Article 12(4)(a) of the DTAA between India and U.S.

3.1. As regards the amounts received towards annual maintenance services implementation and consultancy services, it has been stated that when the receipts on account of sale of software itself is not included as royalty these being miscellaneous income cannot be brought to tax as fees for technical services.

3.2. On the contrary the Ld.CIT.DR could not controvert the submissions made by Ld.AR and the ratio of *Hon'ble Supreme Court*, however placed reliance on the orders passed by authorities below. The ld.CIT.DR also submitted that in this case the assessment year is 2017-18 and the issue may be remitted to the Ld.AO to examine the relevant agreements so as to decide the issue in the light of the Supreme Court judgment in *Engineering Analysis Centre of Excellence P.Ltd. (supra)*.

We have perused submissions advanced by both sides in the light of records placed before us.

4. The Ld.AR also relied on the judgment of *Hon'ble Supreme Court* in the case of the case of *Engineering Analysis Centre of*

Excellence Private Limited v. CIT, (supra). The *Hon'ble Supreme Court* in this case has examined the question whether the payments made to non-resident software suppliers is "royalty" and hence TDS u/s. 195 of the Act was required to be deducted on those payments or not. The *Hon'ble Supreme Court* examined this question considering four types of situations, which has been narrated as under:-

> *"4. The appeals before us may be grouped into four categories:*
>
> *The first category deals with cases in which computer software is purchased directly by an end-user, resident in India, from a foreign, non-resident supplier or manufacturer.*
>
> *The second category of cases deals with resident Indian companies that act as distributors or resellers, by purchasing computer software from foreign, non-resident suppliers or manufacturers and then reselling the same to resident Indian end-users.*
>
> *The third category concerns cases wherein the distributor happens to be a foreign, non-resident vendor, who, after purchasing software from a foreign, non-resident seller, resells the same to resident Indian distributors or endusers.*
>
> *The fourth category includes cases wherein computer software is affixed onto hardware and is sold as an integrated unit/equipment by foreign, nonresident suppliers to resident Indian distributors or end-users."*

The *Hon'ble Supreme Court* analysed sample agreements in respect of all the four categories and gave the following finding:-

> *"45. A reading of the aforesaid distribution agreement would show that what is granted to the distributor is only a non-exclusive, non-transferable licence to resell computer software, it being expressly stipulated that no copyright in the computer programme is transferred either to the distributor or to the ultimate end-user. This is further amplified by stating that apart from a right to use the computer programme by the end-user himself, there is no further right to sublicense or transfer, nor is there any right to reverse-engineer, modify, reproduce in any manner otherwise than permitted by the licence to the end-user. What is paid by way of consideration,*

therefore, by the distributor in India to the foreign, non-resident manufacturer or supplier, is the price of the computer programme as goods, either in a medium which stores the software or in a medium by which software is embedded in hardware, which may be then further resold by the distributor to the end-user in India, the distributor making a profit on such resale. Importantly, the distributor does not get the right to use the product at all.

46.When it comes to an end-user who is directly sold the computer programme, such end-user can only use it by installing it in the computer hardware owned by the end-user and cannot in any manner reproduce the same for sale or transfer, contrary to the terms imposed by the EULA.

47. In all these cases, the "licence" that is granted vide the EULA, is not a licence in terms of section 30 of the Copyright Act, which transfers an interest in all or any of the rights contained in sections 14(a) and 14(b) of the Copyright Act, but is a "licence" which imposes restrictions or conditions for the use of computer software. Thus, it cannot be said that any of the EULAs that we are concerned with are referable to section 30 of the Copyright Act, inasmuch as section 30 of the Copyright Act speaks of granting an interest in any of the rights mentioned in sections 14(a) and 14(b) of the Copyright Act. The EULAs in all the appeals before us do not grant any such right or interest, least of all, a right or interest to reproduce the computer software. In point of fact, such reproduction is expressly interdicted, and it is also expressly stated that no vestige of copyright is at all transferred, either to the distributor or to the end-user. A simple illustration to explain the aforesaid position will suffice. If an English publisher sells 2000 copies of a particular book to an Indian distributor, who then resells the same at a profit, no copyright in the aforesaid book is transferred to the Indian distributor, either by way of licence or otherwise, inasmuch as the Indian distributor only makes a profit on the sale of each book. Importantly, there is no right in the Indian distributor to reproduce the aforesaid book and then sell copies of the same. On the other hand, if an English publisher were to sell the same book to an Indian publisher, this time with the right to reproduce and make copies of the aforesaid book with the permission of the author, it can be said that copyright in the book has been transferred by way of licence or otherwise, and what the Indian publisher will pay for, is the right to reproduce the book, which can then be characterised as royalty for the exclusive right to reproduce the book in the territory mentioned by the licence."

4.1 After analysing the provisions of Income tax Act, provisions of DTAA, the relevant agreements entered by the assessees with

non-resident software suppliers, provisions of Copy right Acts, the circulars issued by CBDT, various case laws relied upon by the parties, the *Hon'ble Supreme Court* concluded as under:-

> *"CONCLUSION*
> *168. Given the definition of royalties contained in Article 12 of the DTAAs mentioned in paragraph 41 of this judgment, it is clear that there is no obligation on the persons mentioned in section 195 of the Income-tax Act to deduct tax at source, as the distribution agreements/EULAs in the facts of these cases do not create any interest or right in such distributors/end-users, which would amount to the use of or right to use any copyright. The provisions contained in the Income-tax Act (section 9(1)(vi), along with explanations 2 and 4 thereof), which deal with royalty, not being more beneficial to the assessees, have no application in the facts of these cases.*
> *169. Our answer to the question posed before us, is that the amounts paid by resident Indian end-users/distributors to non-resident computer software manufacturers/suppliers, as consideration for the resale/use of the computer software through EULAs/distribution agreements, is not the payment of royalty for the use of copyright in the computer software, and that the same does not give rise to any income taxable in India, as a result of which the persons referred to in section 195 of the Income-tax Act were not liable to deduct any TDS under section 195 of the Income-tax Act. The answer to this question will apply to all four categories of cases enumerated by us in paragraph 4 of this judgment."*

4.2 It is pertinent to note that the *Hon'ble Supreme Court* has reversed the decision rendered by *Hon'ble Karnataka High Court* in the case of *Samsung Electronics Co Ltd (supra).*

4.3 A perusal of the decision rendered by *Hon'ble Supreme Court* would bring out following principles: -

> *Relevant DTAA provisions are required to be considered for determining the question whether the payments made by the assessee to non-resident companies for purchase of software are in the nature of Royalty or not.*
>
> *Where ever India has entered Double Taxation Avoidance Agreement with the country of non-resident supplier, there is no necessity to refer to the provisions of sec. 9(1)(vi) of the Act for the payments made to the*

> *non-resident persons, unless the domestic provisions are beneficial to those persons.*
>
> *The agreements entered by the assessee with the non-resident software suppliers are required to be examined to find out whether the "licence" that is granted vide the EULA, is not a licence in terms of section 30 of the Copyright Act, which transfers an interest in all or any of the rights contained in sections 14(a) and 14(b) of the Copyright Act, but is a "licence" which imposes restrictions or conditions for the use of computer software.*

4.4 However, we observe that in the instant case the lower authorities has not examined the relevant agreements entered into by the assessee with the concerned parties. Even before us, no such document has been produced by the assessee. In view of this, it is appropriate to remit the issue in dispute to the file of the Ld.AO for deciding the comparability of these transactions in the light of the judgment of the *Hon'ble Supreme Court* in *Engineering Analysis Centre of Excellence Private Limited (supra).* **Accordingly, the issue in dispute is remitted to the Assessing Officer for fresh decision with the above directions.**

In the result the appeal of the assessee is partly allowed for statistical purposes.

Order pronounced in the open court on 26th August, 2021

Sd/-	Sd/-
(CHANDRA POOJARI)	**(BEENA PILLAI)**
Accountant Member	**Judicial Member**

Bangalore,
Dated, the 26th Aug, 2021.
/Vms/

Copy to:

1. Appellant
2. Respondent
3. CIT
4. CIT(A)
5. DR, ITAT, Bangalore
6. Guard file

By order

Assistant Registrar, ITAT, Bangalore

		Date	**Initial**	
1.	Draft dictated on	On Dragon		Sr.PS
2.	Draft placed before author	-8-2021		Sr.PS
3.	Draft proposed & placed before the second member	-8-2021		JM/AM
4.	Draft discussed/approved by Second Member.	-8-2021		JM/AM
5.	Approved Draft comes to the Sr.PS/PS	-8-2021		Sr.PS/PS
6.	Kept for pronouncement on	-8-2021		Sr.PS
7.	Date of uploading the order on Website	-8-2021		Sr.PS
8.	If not uploaded, furnish the reason	--		Sr.PS
9.	File sent to the Bench Clerk	-8-2021		Sr.PS
10.	Date on which file goes to the AR			
11.	Date on which file goes to the Head Clerk.			
12.	Date of dispatch of Order.			
13.	Draft dictation sheets are attached	No		Sr.PS